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# FROM CRISIS TO OPPORTUNITY: TURNAROUND STRATEGIES OF LARGE IRISH CONSTRUCTION CONTRACTORS DURING THE PERIOD 2007-2015

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The sudden change in environmental munificence level in the construction sector during the period 2007 – 2015 provides a natural experiment to investigate strategic and operating actions of firms, particularly during an environmental jolt. Statistics on business failures corroborate that neither academics nor practitioners have succeeded in guiding strategic action during periods of environmental jolt. Despite the recent increase of turnaround research in the general management domain, its use in the construction management realm remains underexplored. To address this research gap, five exploratory case studies of an ongoing PhD study were used to examine the turnaround strategies of construction contractors during a period of economic contraction and growth. The findings show that, although retrenchment is often considered to be a short-term strategy, this is clearly not the case; with the majority of contractors maintaining the strategy for 6-7 years. During the same period, internationalization became critical, with the turnaround process shifting towards strategic reorientation that altered the firms' market domain. The case studies further suggest that strategic and operational actions resonate quite well with contemporary practice-based approaches to strategy making. The findings provide valuable assistance for construction contractors in dealing with organisational decline and in developing a successful turnaround response.

Keywords: contemporary strategy, internationalization, organisational decline, retrenchment, turnaround strategies.

## INTRODUCTION

Since the onslaught of the 2007 economic recession, the identification of pertinent managerial responses to organisational decline has become increasingly important. Indeed, response strategies have become an important method of dealing with turbulent environments (Tansey *et al.*, 2014), and are one of the most important decisions that senior management must make (Ketchen and Palmer 1999). To put into context, the recent economic recession has affected numerous industries including construction, manufacturing, and business services (Price *et al.*, 2013); however, some industries such as oil production, agriculture, and the food sector, have proved less susceptible (Audas and MacKay 1997; Athey 2009). In relation to the Irish construction industry, construction output peaked in 2006 at €38.6 billion and

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declined for 6 consecutive years to reach a trough in 2012 at €9.1 billion; representing a decline of 76%. Subsequently, output has increased year-on-year to an estimated value of €12.5 billion for 2015 (SCSI 2015).

While organisational decline and turnaround research have been examined extensively (cf. Trahms *et al.*, 2013), comparatively little research has addressed turnaround strategies during recession, particularly in the realm of construction management. Furthermore, current theory related to turnaround situations have discussed strategies and actions relative to mechanistic strategy paradigms (e.g. Lim *et al.*, 2013); however none (as far as we are aware) have related the theory to more contemporary views of strategy. In this study, we address this gap by providing an in-depth analysis of firms' turnaround strategies (strategic and operational) during the period 2007-2015, whilst also exploring a contemporary practice-based approach to strategizing practices, where ontological and epistemological questions about what constitutes strategy, who the strategy makers are, and what strategy making entails. To do so, we leverage off the 2007 economic recession to demarcate dramatically different periods of construction munificence, and draw on five exploratory case studies of large Irish construction contractors.

## CONCEPTUAL BACKGROUND

Under the rubric of strategic management, the fundamental question surrounding strategy scholars and practitioners over the past few decades is how firms achieve and sustain competitive advantage. However, within recent years more theoretical effort has been made to understand how firms 'turnaround' from organisational decline (cf. Trahms *et al.*, 2013; McKinley *et al.*, 2014) and more contemporary ideas of 'where strategies come from?' (cf. Jarzabkowski 2005; Chia and Holt 2009).

### Organisational decline and the turnaround process

Organisational decline is an omnipresent concern in modern society (Trahms *et al.*, 2013), and according to McKinley *et al.*, (2014: 106) 'its effects are visible from the Rust Belt cities of the Midwest, to the failed housing estates of Ireland, to the fate of bookstore chains like Borders'. Moreover, in light of the recent economic recession and the associated weakness in the global economy, it is not surprising that research in the strategic management literature has focused a lot more on organisational decline and the turnaround process. Analogous with this, authors have expanded the focus to include domains such as, managerial cognition (e.g. Chen and Hambrick 2012), strategic leadership (e.g. Bradley *et al.*, 2011), resource orchestration (e.g. Trahms *et al.*, 2013) and turnaround innovation (e.g. McKinley *et al.*, 2014).

Following on from the foundational works of Pearce and Robbins (1993), Trahms *et al.*, utilised 40 empirical studies from the decline and turnaround literature since 1993. Building on Pearce and Robbins' review, they proposed an expanded model of organisational decline and turnaround, by incorporating recent insights to the turnaround process, whilst also assuaging the key criticisms of previous turnaround research. One such critic of Pearce and Robbins (1993) two-stage model was Arogyaswamy *et al.*, (1995) who argued that turnaround is not always rigid-beginning with retrenchment and being sequentially followed by strategic recovery actions. Indeed, given the significant development of the new expanded model, its use is warranted in order to help assess the turnaround strategies of construction companies relative to the 2007 economic recession.

For the purposes of this paper, the scope will centre on the 'firm actions' section of the organisational decline and turnaround model (cf. Trahms *et al.*, 2013). This part of the model introduces the firm's actions in response to the organisational decline, namely, operational and strategic actions. Operational actions (used as a synonym to retrenchment actions), are those actions undertaken to achieve short-run cost and asset reductions (Michael and Robbins 1998). Cost reductions generally reduces cash outflows, and often involves employee reductions to reduce firm labour costs (Barker *et al.*, 1998; Tansey *et al.*, 2014), whilst asset reductions involve the elimination of business units or other physical assets such as plant, machinery or facilities (Ndofor *et al.*, 2013).

Empirical evidence of the effect of retrenchment in the turnaround process has been inconsistent and has arrived at ambiguous results. For example, Robbins and Pearce (1992) found retrenchment to be inescapable, and indispensable in achieving turnaround for firms in decline. In producing evidence to the contrary, Barker *et al.*, (1998) concluded that successful turnaround was almost entirely due to revenue gains rather than cost and asset reductions. Strategic actions, on the other hand, are those actions that focus on changing or adjusting a firm's domains (products and markets) and how it competes within those domains (Barker and Duhaime 1997; Ndofor *et al.*, 2013). For instance, Morrow *et al.*, (2007) found that firms can change its strategy by reconfiguring existing resources and capabilities into new product offerings, or it can acquire new resources and capabilities externally through strategic alliances.

### **Contemporary approaches to strategy**

Before exploring the more modern contemporary approaches to strategy, it is important to firstly place this research in the context of the strategy process perspective. According to Chia and MacKay (2007) strategy process research entails 'how a particular organisational strategy emerges', while strategy content research focuses on 'what strategic decisions are taken'. Indeed, Web and Pettigrew (1999) argued that strategy content (e.g. Porter 1985) revolve around the domain of states and positions to conceive the fit between the resource base of a firm and its strategic location within a competitive environment. By contrast, the 'processual' approach to strategy theorizing tends to focus internally, on the activities of individuals and organisations, and the causal relationships and sequence of events that lead to organisational change (Van de Ven 1992).

Chia and MacKay (2007) note that critics of the strategy process research have begun to emerge from more contemporary scholarship (e.g. strategy as practice, practice based view, strategy without design), which offers an alternative perspective that is clearly distinct from the traditional strategy process view. A number of authors charge that not enough is understood about micro-level particulars of managerial activity (Regner 2003) or the work of ordinary strategic practitioners in their daily routines (Whittington 1996), hence the secondary schism of more contemporary approaches away from strategy process research. While a full review of this broader literature is outside the scope of the study, it is nevertheless important to briefly rehearse some of these newer streams.

The strategy as practice approach (hereafter 'SAP') could be viewed as complementary to the mainstream strategy process research, with strategy process research concentrating on reciprocal relationships between managerial actions and context, and strategy practice research focusing more on managers and the associated routines and procedures used to endorse strategy (Jarzabkowski and Wilson 2002).

The SAP perspective put forward by Jarzabkowski (2005) offers a more contemporary practice-based approach to strategy making, and examines human action, focusing on the actual work of strategists and strategizing, right down to the mundane 'micro-activities'. SAP research conducted by Regner (2003) found that strategy making tends to be more inductive rather than deductive. Similar to the SAP perspective, the practice-based view (hereafter 'PBV') of strategy scholarship includes the qualitative work in SAP, but in order to understand practices fully, it also adds the quantitative dimension (e.g. performance) as well (Bromiley and Rau 2014). Considering the resource-based view (RBV) emphasis is on things that firms cannot imitate, Bromiley and Rau (2014) stipulate that the PBV of strategy examines imitable activities or practices, which are amenable to transfer across firms. Another contemporary approach known as the 'strategy without design' perspective, was proposed by Chia and Holt (2009) and contends that successful strategies may accidentally emerge from the everyday coping actions of numerous individuals, none of whom intended to contribute to any predetermined strategy design, i.e. strategy could still emerge unconsciously, unplanned or undirected, in practice. They further contend that 'strategy' often involves locally embedded coping initiatives in which the fundamental concern is the mitigation of immediate pressing problems, with little thought about broader eventual outcomes.

## RESEARCH METHOD

On the premise of the foregoing discussion, this study aims to examine firms' turnaround strategies (strategic and operational) during the period 2007-2015. Consequently, the research method adopted in this study consists of five exploratory case studies of large Irish construction contractors. The selection of the five cases was based on a criterion sampling strategy relating to annual turnover for the year 2007, and was largely based on the thresholds set out by the European Commission (2005), whereby 'large' firms are deemed to have an annual turnover greater than €50 million. Regarding the five cases, two of the larger firms (Cases A and B) are predominately building / civil engineering companies, with two other firms (Cases C and D) being purely building companies, and the smallest of the five firms (Case E) a civil engineering company. The case study approach was chosen as it is most suitable for the 'how' and 'why' research questions (Yin 2014), whilst also providing an in-depth investigation of particular instances of phenomenon (Fellows and Liu 2008).

Semi-structured interviews were conducted with 'strategists', who referred to here are all senior management; either CEOs, MDs, or executive directors, who, for part of their formal role and duties, are involved in developing strategic direction (Higgs and Dulewicz 1998). For transcription purposes and to allow for a consistent flow during the interview discussion, each interview was recorded (with the participant's permission) and lasted between 80 and 150 minutes. Interview transcripts, along with audio files, company documents and case notes were uploaded into Computer Assisted Qualitative Data Analysis Software (CAQDAS). The interview protocol sheet consisted of two main sections; the first relating to general company information, and the second, response and recovery strategies (turnaround strategies) to the economic recession 2007-2013. The latter section on turnaround strategies utilised 10 strategic themes which were generated from an extensive review of key empirical strategic management studies. The more in-depth questions were developed from the conceptual ambiguities highlighted from an integrative review of mechanistic, organic, and contemporary strategy paradigms. Additionally, the conceptual turnaround framework proposed by Trahms *et al.*, (2013), also influenced

the protocol design and thus provided a platform for a more in-depth analysis and framing of the results.

The analytical strategy used in the study was guided by an abductive approach, which according to Blaikie (2000), refers to the dialectic, combination or relationship between deductive and inductive approaches. To suit the research needs of this study, the first cycle coding method adopted consisted of 'eclectic coding' which according to Saldana (2013) best fits as an exploratory method and entails a compatible combination of two or more first cycle coding methods. The next stage in the coding process involved a higher level analysis, namely second cycle methods (pattern and longitudinal coding), which are 'advanced ways of reorganizing and reanalysing data coded through First Cycle methods', and are necessary before moving on analytically (Saldana 2013: 207). The latter stage in the analytical process is post-coding and pre-writing, which Saldana (2013) refers to as the transitional analytic processes between coding cycles and the final write-up. More importantly, these serve as possible heuristics to explore the condensed categories and thus formulate assertions/theories.

## DISCUSSION

Analysis of the data resulted in the emergence of 16 categories, however due to space restrictions, the extent of the discussion will be focused on two main categories: cost retrenchment (operational actions), and marketing (strategic actions); which under the framework proposed by Trahms *et al.*, (2013), encompass the stage 'firm actions'. A brief synopsis of the turnaround strategies for the five case firms is also provided in Table 1.

### Cost retrenchment-operational actions

Three out of the five contracting firms (Cases A, C and D) initiated drastic cost-cutting measures early into the recession (all three cases started cuts in 2008), with all cutting salaries, bonuses, company cars, and employee numbers. This result is echoed by other studies (e.g. Robbins and Pearce 1992; Michael and Robbins 1998) wherein it was found that an aggressive retrenchment response should be used to activate the turnaround process. Even though retrenchment is the quickest way to achieve survival (Ndofo *et al.*, 2013), these three firms suffered the steepest declines in turnover during the recession period. This concurs with Nixon *et al.*, (2004) who found the level of downsizing to have a negative impact on firm performance. On a positive note, Cases A and D started to implement salary increases for the first time in 2015, some eight years after the recession started. The other two contracting firms (Cases B and E) were not as aggressive and started implementing some cost-cutting measures a year later. Both firms started cutting direct employee numbers in 2009/2010, as their large civil contracts finished, with one of the firms implementing bonus cuts in 2010 (accounted for 30% of salary); however both firms tended to maintain salary levels and company cars. Indeed, both of these firms' turnover for 2015 was only 15% off their peak values recorded at the start of the recession, while the three firms that took drastic cost cutting measures recorded turnover figures for 2015 as being 45-65% off their peak values. Regarding retrenchment actions and their respective timing, differences across the five cases may be explained by the fact that those firms who instigated earlier and more drastic cost-cutting measures (Cases A, C and D) were heavily involved in the residential and commercial sectors, and thus were directly exposed to the collapsing property market, while the other two firms (Cases B and E) were predominately involved in the civil engineering sector. Indeed, for all the five case firms, none have fully recovered yet. In this respect, 'recovery is said to have

been achieved when economic measures indicate that the firm has regained its pre-downturn levels of performance' (Pearce and Robbins 1993: 624).

The case data confirmed that the utilisation of cost retrenchment across the firms was linked to demand declines, in a deteriorating industry; however, it was also conceded that the firms became leaner, and as such, reduced inefficiencies across the business. In an effort to secure work and remain competitive in a declining market, most of the firms had to tender 15-20% below cost, therefore, initial strategizing focused on cost-cutting initiatives. Consistent with contemporary strategy approaches, depiction of 'how' the case firms retrenched during the recession was also evident. For instance, the two larger firms (Cases A and B) utilised their annual strategy forums, as a means of conveying the imminent cuts to staff, while the other firms adopted a more contiguous approach through personal meetings.

*Table 1: Turnaround Strategies of large Irish Contractors*

Case	Turnover		Years. of growth	Main Firm Actions	
	% decline /growth	Years. of decline		Operational Actions	Strategic Actions
A	72/115	2007 - 13	2013 - 15	Employee cuts in 2008. Started salary cuts in 2009. First increase in salaries in 2015. Cut bonuses in 2011 and reintroduced in 2015.	New international markets - UK in 2009, Poland in 2010.
B	51/175	2007 - 11	2011 - 15	Employee cuts in 2009. Cut bonuses completely in 2010; to reintroduce them in 2016.	New international markets - Middle East in 2012. New domestic markets - West of Ireland in 2008, Small works sector in 2008, Northern Ireland in 2011.
C	83/250	2008 - 10	2010 - 14	Cut salaries, employee no's, bonuses, and co. cars, in 2008.	New international markets - UK in 2012. New domestic markets- South of Ireland in 2014. New marketing manager in 2008.
D	79/240	2008 - 11	2011 - 15	Cut salaries, employee no's, bonuses, and co. cars, in 2008. Reintroduced increases in 2015.	New international markets - Middle East in 2007, UK in 2009, Germany in 2011. New UK non-executive director in 2010.
E	50/160	2009 - 12	2012 - 15	No major cost cutting, just employee layoffs in 2009/10.	New international markets - UK in 2010, Middle East in 2011, Poland in 2011. New domestic markets - small works in 2010, enabling works for private sector in 2012. New business development manager in 2014.

Regarding reductions in the firms' human capital, firm-clearing mechanisms consisted of; an initial wave of lay-offs, lay-offs as projects finished, temporary lay-offs, disengagement incentives (e.g. redundancies), and natural wastage (e.g. retirements). Exploring one case firm in particular, the 'practice' of initial cost retrenchment entailed executive directors (responsible for strategic determination) visiting every project in their jurisdiction over a two week period; meeting staff on a personal basis, and communicating immediate cost retrenchment actions. This first wave of operational actions involved 'selective' human capital reductions of 30-40 staff (20% cut overall), a 10-20% reduction in salaries at all levels, along with the removal of bonuses, and a

reduction in company perks. Moreover, as the turnover declined, selective human resource downsizing (cf. Nixon *et al.*, 2004) continued with the removal of a whole hierarchal layer of middle management (senior surveyors and contracts managers). In this respect, structure followed strategy, and thus provided a revised pattern for management, with increased workloads and respective working hours becoming the norm for the continuing workforce (survivors). Subsequently, during 2014 and 2015, the layer of middle management was reinstated in the firm, however, no increases in salaries or bonuses were reported.

### **Marketing-strategic actions**

During the period 2007-2012, all case companies diversified into new international markets; mainly during the firms' years of decline. Due to its relatively low entry barriers, the UK market proved to be the most popular choice across the majority of the firms (Cases A, C, D and E), followed by the Middle East (Cases B, D and E), and Poland (Cases A and E). Cases A and D, who already had a small amount of international experience were first to expand into the UK market in 2009, both targeting private sector works through client led opportunities. Due to the longevity of certain large civil engineering projects, Case E didn't need to expand into the UK until 2010; while Case C tended to put all its resources into improving its market share in the public building works sector in Ireland, thereby not expanding into the UK market until 2012. Certainly, the UK market proved successful for those firms who diversified, with all attaining growth in contracts awarded, and also increasing project values. These results are consistent with the findings of Barker and Duhaime (1997), who highlighted successful turnarounds through strategic reorientation that alters the firm's market domain. However, in the case of the Middle East market, two of the firms (Cases D and E) had to abnegate. For one of the firms, the evidence suggested that this was caused by their Irish joint venture partner going bankrupt, while for the other firm, they conceded that it was germane to a very prolonged tendering process. Similarly, expansion into the Polish market so proved futile for two Irish firms. In one of the cases, the job was under-valued, they encountered payment problems, and their Polish partner went bankrupt. In the other case, the firm overstretched itself with too many projects (mainly due to the domestic decline), there was a poor dispute process, and the client proved very difficult to deal with.

Similar to cost retrenchment, strategic reorientation of the case firms stemmed mainly from the economic collapse, and the deteriorating domestic construction sector. In addition, several cases recalled other motives, including; to retain existing staff, client led opportunities competitors were expanding, and to future proof the business for the next recession. Highlighting components of practice-based approaches, portrayal of 'how' the case firms expanded into the UK market was also apparent. For example, Case C pursued private building works by utilising their existing industry relationships, while Case E pursued public civil engineering works by simply siphoning through e-tenders to identify opportunities. Exploring Case C in particular, the 'practice' of utilising existing relationships, entailed executive directors contacting quantity surveyors, architects, and clients whom they had worked with before in Ireland, and who had diversified into the UK also. This resulted in the firm successfully getting on tender lists, however, it wasn't until their third or fourth project that they tendered for, that they won. As such, it could be argued that there diversification into the UK market was dependent on their 'relational assets'. Cases C and E also conceded that they availed of external assistance from Enterprise Ireland in the form of financial grants. The case data confirmed that in addition to relationship



management above, resource management through a combination of resource configuration and integrating new resources, was also evident in practice (also found by Morrow *et al.*, 2007). For instance all firms utilised their mobile resources and brought over a core Irish management team for initial projects. Subsequently, in order to reassure clients of their long-term commitment, all firms opened new offices. Interestingly, a year after entering the UK market, Case D appointed a UK native as a non-executive director in 2010, which had the added benefit of establishing more client relations and increasing respective tender invites.

### **Resonance with contemporary perspectives**

Theoretically, the findings resonate quite well with the contemporary strategy paradigms depicted earlier. Similar to the findings of Jarzabkowski and Wilson (2002), the SAP perspective was used successfully to identify contextually-meaningful patterns by incorporating interpretative contexts within which strategic action occurs. More specifically, the practice of 'allocating resources' by the case firms for market entry, clearly shapes strategy making, and thus shares components of the Bower-Burgelman (B-B) process model of strategy making (cf. Mirabeau and Maguire, 2014). Given the quantitative information provided in Table 1, along with the in-depth qualitative information of the case firms' strategic processes (aligns with the SAP movement); collectively they meet the requirements of the PBV approach, which according to Bromiley and Rau (2014) provide the output that practitioners will find valuable. Furthermore, the operational and strategic actions adopted by the case firms are not secret, idiosyncratic, nor technologically complex, however, they are generally imitable and amenable to transfer across firms, thus aligning with the PBV. Indeed Chia and Holt's (2009) idea of strategy without design, also resonates with some of the findings herein. For instance, strategic success for the case firms (e.g. UK market) was not attributable to the pre-existence of a deliberate planned strategy, rather, their actions involved locally embedded coping initiatives in which the fundamental concern was the mitigation of immediate pressing problems (i.e. survival), with little thought about broader eventual outcomes.

### **CONCLUSIONS**

Our goal in undertaking this study was to investigate the turnaround strategies (strategic and operational) of 5 large Irish construction contractors during the period 2007-2015, whilst also exploring a contemporary practice-based approach to strategizing practices. This responds to recent calls 'to examine potential turnaround actions in a greater number of industry environments'...'in industries going through cyclical contractions due to a recession' (Ndofor *et al.*, 2013: 1132).

The main pattern of findings show high levels of cost retrenchment to have a negative impact on firm performance. Even though retrenchment is often considered to be a short-term strategy (Robbins and Pearce 1992), this is clearly not the case; with the majority of contractors maintaining the strategy for 6-7 years. During the same period, internationalization became critical, with the turnaround process shifting towards objectives of growth and development; in the form of strategic reorientation that altered the firms' market domain. In this sense, the evidence concurs with Arogyaswamy *et al.*, (1995) and Trahms *et al.*, (2013), who argued that turnaround is not always sequential. The findings also suggest that the strategic and operational actions taken by the firms resonate quite well with the SAP, PBV, and the 'strategy without design' contemporary approaches to strategy.

The findings provide valuable assistance for construction contractors in dealing with organisational decline, and in aiding the selection and timing of appropriate strategic and operational responses. A key direction for further research would be to examine similar actions to this study, however, with failed construction firms. More importantly, this research provides an axiom for academic researchers in their future studies in this field.

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